Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

[x] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **05-5003/3**	Introduction Number **SB-724**

Description
Creating a revenue limit for local governmental units, prohibiting the legislature from passing any bill that would exceed a revenue limit, returning excess revenue to taxpayers, elector approval for exceeding the revenue limit, reimbursing the reasonable costs of imposing state mandates, prohibiting the promulgation of certain rules, prohibiting the issuance of certain revenue obligations, and standing to bring a suit to enforce the revenue limits

Fiscal Effect

State:
[ ] No State Fiscal Effect
[x] Indeterminate
- [ ] Increase Existing Appropriations
- [ ] Decrease Existing Appropriations
- [ ] Create New Appropriations
- [ ] Increase Existing Revenues
- [x] Decrease Existing Revenues
- [x] Increase Costs - May be possible to absorb within agency's budget
  - [x] Yes [ ] No
- [ ] Decrease Costs

Local:
[ ] No Local Government Costs
[x] Indeterminate
1. [ ] Increase Costs
   [ ] Permissive [ ] Mandatory
2. [ ] Decrease Costs
   [ ] Permissive [ ] Mandatory
3. [ ] Increase Revenue
   [ ] Permissive [ ] Mandatory
4. [x] Decrease Revenue
   [ ] Permissive [x] Mandatory
5. Types of Local Government Units Affected
   [x] Towns [x] Village [x] Cities
   [x] Counties [x] Others lake, sanitary, metro sewer
   [ ] School Districts [x] WTCS Districts

Fund Sources Affected
[x] GPR [ ] FED [ ] PRO [ ] PRS [x] SEG [ ] SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Daniel Huegel (608) 266-5705	Paul Ziegler (608) 266-5773	6/14/2006

Fiscal Estimate Narratives
DOR 6/14/2006

LRB Number **05-5003/3**	Introduction Number **SB-724**	Estimate Type **Original**
Description Creating a revenue limit for local governmental units, prohibiting the legislature from passing any bill that would exceed a revenue limit, returning excess revenue to taxpayers, elector approval for exceeding the revenue limit, reimbursing the reasonable costs of imposing state mandates, prohibiting the promulgation of certain rules, prohibiting the issuance of certain revenue obligations, and standing to bring a suit to enforce the revenue limits		

Assumptions Used in Arriving at Fiscal Estimate

The bill creates several new provisions of law that affect the amount of revenue that can be raised by the state and local governments.

STATE GOVERNMENT – CURRENT LAW

Under current law, the percentage by which a fiscal year's general fund revenue (GRP) appropriations can increase when compared to the prior fiscal year may not exceed the projected percentage increase in state personal income for the calendar year that ends during the fiscal year. Projected personal income growth rates are developed by the Legislative Fiscal Bureau (LFB), which is required to prepare its estimates for the upcoming biennium by November 20 of each even-numbered year. On November 20, 2004, the LFB released its estimate of growth in state personal income for 2005 and 2006, which showed projected growth in state personal income of 5.5% for calendar 2005 (for FY06 appropriations) and 5.1% for calendar 2006 (for FY07 appropriations).

The following appropriations are not subject to the current limit:
(1) For the payment of principal and interest on public debt or operating notes.
(2) For payments to honor statutory "moral obligation pledges" (generally to ensure sufficient funds are available to pay debt service on certain revenue bonds).
(3) For payments to the federal government to ensure the state's bonds are not deemed arbitrage bonds, which would make interest subject to federal income taxation.
(4) For amounts approved by a two-thirds vote of each house of the Legislature.
(5) For payments of legal expenses or for the costs of judgments, orders, and settlements of actions and appeals incurred by the state.
(6) For tax relief payments under s. 20.835(2), such as the Homestead Tax Relief Credit, Farmland Preservation Credit, Veterans and Surviving Spouses Property Tax Credit, and the Earned Income Tax Credit.
(7) Transfers from general fund to the budget stabilization fund.
(8) To the Higher Educational Aids Board,
(9) To the Department of Public Instruction.
(10) To the board of regents of the University of Wisconsin System, including any appropriation for state operations.
(11) For fuel and utility costs.
(12) For income tax reciprocity payments to the State of Minnesota and the State of Illinois.
(13) For the repayment of obligations issued to finance the state's anticipated unfunded prior service liabilities to the Wisconsin Retirement System.
(14) For the 2005-07 biennium, to fund payments under the County and Municipal Aid program.

Based on information from LRB Information Paper #68, issued in January 2005 (before items 11, 12, and parts of items 6, 10 and 13, above, were enacted), of the $11.9 billion in total GPR appropriations for FY05, only about $5.6 billion (47%) was subject to the limit.

STATE GOVERNMENT – SB 724

Under the bill, beginning in FY08, state revenues in any fiscal year may not increase compared to the maximum allowable revenue in the prior fiscal year by a percentage that exceeds: (a) the lesser of the "inflation factor" or the "income factor" plus (b) the percentage increase, if any, in state population. The "inflation factor" equals the average annual percentage change, if any, in the Consumer Price Index for

Milwaukee-Racine for each of the three most recent years for which data are available. The "income factor" equals the average annual percentage change, if any, in state personal income for each of the three most recent years for which data are available. The amount determined above is reduced by the amount of any reduction in state aid to any of the following categories of local government: counties, cities, villages, towns, school districts, technical college districts, or special purpose districts. (This limit applies to aids to each individual category, and not to the total state aid paid to all of the types of entities listed.)

"Revenue" means all monetary inflows to the state except for the following:
(1) Proceeds from bond issues or short-term cash flow borrowing.
(2) Funds used to pay any settlement or damage award.
(3) Funds used for debt service on economic development bonds.
(4) Receipts from one-time grants.
(5) Interfund transfers.
(6) Funds used to pay expenses due to a natural disaster or terrorist attack.
(7) Receipts from the federal government.
(8) Receipts from gifts.
(9) Receipts from settlements or damage awards.
(10) Receipts from sales of real or personal property.
(11) Receipts from local governments for governmental services provided to the government.
(12) Unemployment insurance taxes and other insurance premiums.
(13) Receipts for medical care provided by a state facility.
(14) Employee or retiree payments for fringe benefits.
(15) Receipts from governmental property insurance.
(16) Receipts from investment trusts, private purpose trusts, or college savings programs.
(17) Fees imposed for airports or for mass transit systems.
(18) Tuition and fees imposed for university functions.

If actual revenues exceed the limit in any fiscal year, the excess is to be deposited into the budget stabilization fund. Once the balance in this fund equals 8% of the state's revenue in the previous fiscal year, excess revenues shall be set aside for tax relief in the following fiscal year.

The revenue limit for a given fiscal year may be increased if the legislature adopts a joint resolution to that effect and the increase is approved by voters in a referendum.

Beginning in FY08, no bill may be passed that increases fiscal year deposits to any segregated fund by a percentage that exceeds the allowable increase in revenue. In addition, for segregated funds that existed before FY08, no bill may be passed that expends segregated fund money for a purpose other than one for which the fund was created.

Beginning in FY08, no bill may be passed or administrative rule be promulgated that increases expenditures of a county, municipality, school district, technical college district, or special purpose district unless an appropriation is made to pay the reasonable costs to comply with the bill or rule. This provision does not apply to bills enacted to comply with federal law.

The bill also limits the ability of the State Building Commission to issue debt on behalf of the state, and restricts the purposes for which debt can be issued.

The proposed revenue limit applies to a wide variety of monetary inflows to the state, some of which are taxes collected by DOR and some of which are taxes and fees collected by other departments. Since DOR does not have information on the non-DOR administered monetary inflows, DOR is unable to reasonably estimate the effect of the bill on the state finances.

LOCAL GOVERNMENT – CURRENT LAW

Under current law, most local governments operate under a limit on their ability to raise taxes or general revenues. A general description of each of these limitations is shown below.

Counties: Counties operate under a limit on their operating tax rate under which that rate may not exceed the rate imposed for the 1992/93 tax year. The debt tax rate is indirectly controlled in that a county may issue new debt only if such issuance does not cause the debt tax rate to exceed the prior year's allowable rate (which is based on the rate for the 1992/93 tax year). For the 2005/06 and 2006/07 tax years, counties are also subject to a levy limit under which the total tax levy may not increase by more than the greater of 2% or the county's percentage change in equalized value due to net new construction. The levy limit does not apply to levies for county-operated Children with Disabilities Education Boards, increases from the prior year in debt service, and debt service on debts approved on or after July 1, 2005. If the allowable levy under the rate limit is less than the allowable levy under the levy limit, the rate limit takes precedence.

Municipalities: For the 2005/06 and 2006/07 tax years, municipalities are subject to a levy limit under which their tax levy may not increase by the greater of 2% or the municipality's percentage change in equalized value due to net new construction. This limit does not apply to first class city levies for school purposes, increases from the prior year in debt service, and debt service on debts approved on or after July 1, 2005.

School Districts: These districts are limited in the amount of per pupil revenue they can raise from general school aids (state equalization aid, integration aid, and special adjustment aid), exempt computer aid, and the property tax levy (excluding debt levies for certain referendum-approved bonds and the community service fund levy). Pupil counts are based on a three-year average of enrollments. For most districts, the allowable increase in per pupil revenue is about $248 for 2005-06 and is expected to be about $252 for 2006-07. The per pupil amount is adjusted for inflation (using U. S. level data on the Consumer Price Index).

Technical college districts: The tax rate for operating purposes may not exceed 1.50 mills on equalized value. There is no limit on the tax levy for debt service.

Inland lake protection and rehabilitation districts: The tax rate for operating purposes may not exceed 2.50 mills on equalized value. There is no limit on the tax levy for debt service.

Town sanitary districts: The amount levied in excess of what is needed for the operation and maintenance of the district and for debt service payments may not exceed 1.00 mills on equalized value.

Metropolitan sewerage districts: There is no limit on the tax levy or tax rate for the Milwaukee Metropolitan Sewerage District. For all other metropolitan sewerage districts, the limit is identical to the one applied to town sanitary districts.

LOCAL GOVERNMENT – SB 724

Under the bill, beginning in 2008 for counties, municipalities, and special districts, and in the 2007/08 school year for technical college districts, the amount of revenue in any year may not increase compared to the maximum allowable revenue in the prior fiscal year by a percentage that exceeds the lesser of the "inflation factor" or the "income factor" plus the following: (a) for special districts and technical college districts, the percentage increase, if any, in population, or (b) for counties and municipalities, 67% of the percentage increase in equalized value due to net new construction. The "inflation factor" and "income factor" are identical to those used when calculating the state's revenue limit. The limit does not apply to a town whose budgeted revenue in 2008 is less than $1,000,000, or in subsequent years is less than $1,000,000 increased annually by the "inflation factor".

"Revenue" means all monetary inflows to the local government except for the following:
(1) Tax levies for county-operated Children with Disabilities Education Boards that existed before January 1, 2005.
(2) Funds used to pay debt service on an economic development bond.
(3) Receipts from one-time grants.
(4) Interfund transfers.
(5) State reimbursements for the reasonable costs of new laws or administrative rules.
(6) Proceeds from the issuance of bonds or from short-term cash flow borrowing.
(7) Funds used to pay a settlement or damage award.
(8) Funds used to pay expenses related to a natural disaster or terrorist attack.
(9) Receipts from the federal government.
(10) Receipts from the state or other local units for governmental services to that government.
(11) Receipts from gifts.
(12) Receipts from settlements or damage awards.
(13) Receipts from sales of real or personal property.
(14) Revenues of a telephone, gas, electric, water, or sewerage utility.
(15) Receipts from insurance premiums.
(16) Employee or retiree payments for fringe benefits.
(17) Receipts from governmental property insurance.
(18) Receipts from investment trusts or private purpose trusts.
(19) Fees imposed for airports or for mass transit systems.
(20) Tuition and fees imposed for technical college functions.
(21) Non-governmental receipts for medical care at facilities operated by an entity subject to the revenue

limit.

If actual revenues exceed the limit in any fiscal year, the excess is to be refunded to taxpayers in the following year. The bill does not specify how such refunds should be issued. However, a special purpose district may use any excess revenue to retire debt that was issued prior to January 1, 2006.

If the governing board of a local government wishes to decrease its revenue limit, it may do so by a majority vote of its board. If the governing board wishes to increase its revenue limit, it must get the approval of voters at a referendum. Any referendum must specify whether the revenue increase is on a recurring or nonrecurring basis.

Any individual or class of individuals residing in or paying taxes to a local governmental entity subject to the revenue limit has standing to bring suit to enforce the revenue limit.

For municipalities, the financial report forms filed with DOR have some of the data needed to estimate the potential effect of the bill on municipalities. Based on data from the forms for 2003 and 2004: (1) About 1,130 of the state's 1,260 towns, or 90% of all towns, would have been exempt from the limit due to having total revenue of less than $1,000,000. About 66% of the state's town residents reside in these exempt towns. (2) About 41% of total revenue (71% of proprietary fund revenue and 31% of other revenue) would be exempt from the revenue limit. The statewide total of revenue subject to the limit increased from $4.24 billion in 2003 to $4.33 billion in 2004, or by 2.20%. For individual municipalities, the percentage changes ranged from increases of over 100% to decreases of 60%. Thus, for those places with large percentage increases, revenues under the bill would likely have been lower than under current law. Because it is likely that some of the revenue increases would have been approved by referendum, and because of limitations with the data, it is not possible to reasonably estimate the revenue decrease that this bill could engender.

For counties, the financial report forms filed with DOR lack certain critical data elements that are needed to estimate the potential effect of the bill on counties. This is especially true in the areas of trust and other fiduciary funds and due to the extensive use of internal service funds for providing certain services, notably highways. These factors make assessing the effect on counties difficult without further detailed data.

DOR does not receive financial reports for technical college districts, inland lake protection and rehabilitation districts, town sanitary districts, and metropolitan sewerage districts. Therefore, it is not possible DOR to estimate how the bill would affect these entities.

The bill makes no changes to the revenue limit for school districts, and therefore presumably has no effect on their revenue.

Long-Range Fiscal Implications